

MONEYGRAM INTERNATIONAL INC

Form 10-Q

May 10, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(mark one)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended March 31, 2007**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_ .**

**Commission File Number: 001-31950  
MONEYGRAM INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)**

Delaware  
(State or other jurisdiction of  
incorporation or organization)

16-1690064  
(I.R.S. Employer  
Identification No.)

1550 Utica Avenue South, Suite 100,  
Minneapolis, Minnesota  
(Address of principal executive offices)

55416  
(Zip Code)

(952) 591-3000  
(Registrant's telephone number, including area code)

Not applicable  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of May 4, 2007, 83,442,331 shares of Common Stock, \$0.01 par value, were outstanding.

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CONSOLIDATED BALANCE SHEETS  
UNAUDITED**

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
<i>(Amounts in thousands, except share data)</i>		
<b>ASSETS</b>		
Cash and cash equivalents	\$	\$
Cash and cash equivalents (substantially restricted)	1,274,768	973,931
Receivables (substantially restricted)	1,599,654	1,758,682
Trading investments (substantially restricted)	107,000	145,500
Available for sale investments (substantially restricted)	5,490,141	5,690,600
Property and equipment	152,909	148,849
Deferred tax assets	32,398	11,677
Derivative financial instruments	17,155	24,191
Intangible assets	14,475	15,453
Goodwill	421,371	421,316
Other assets	81,895	85,938
Total assets	\$9,191,766	\$9,276,137
<b>LIABILITIES</b>		
Payment service obligations	\$8,129,757	\$8,209,789
Debt	150,000	150,000
Derivative financial instruments	5,775	3,490
Pension and other postretirement benefits	104,598	103,947
Accounts payable and other liabilities	159,535	139,848
Total liabilities	8,549,665	8,607,074
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		
<b>STOCKHOLDERS EQUITY</b>		
Preferred shares undesignated, \$0.01 par value, 5,000,000 authorized, none issued		
Preferred shares junior participating, \$0.01 par value, 2,000,000 authorized, none issued		
Common shares, \$.01 par value: 250,000,000 shares authorized, 88,556,077 shares issued	886	886
Additional paid-in capital	71,372	71,900
Retained income	726,756	723,106
Unearned employee benefits	(10,708)	(17,185)
Accumulated other comprehensive loss	(25,985)	(6,292)
Treasury stock: 4,857,448 and 4,285,783 shares at March 31, 2007 and December 31, 2006, respectively	(120,220)	(103,352)

Total stockholders' equity	642,101	669,063
Total liabilities and stockholders' equity	\$9,191,766	\$9,276,137

See Notes to Consolidated Financial Statements

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**MONEYGRAM INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**UNAUDITED**

<b>FOR THE THREE MONTHS ENDED MARCH 31,</b> <i>(Amounts in thousands, except per share data)</i>	<b>2007</b>	<b>2006</b>
<b>REVENUE</b>		
Fee and other revenue	\$213,133	\$ 169,132
Investment revenue	96,054	94,960
Net securities gains (losses)	864	(420)
 Total revenue	 310,051	 263,672
Fee commissions expense	90,012	67,484
Investment commissions expense	62,248	58,789
 Total commissions expense	 152,260	 126,273
 Net revenue	 157,791	 137,399
 <b>EXPENSES</b>		
Compensation and benefits	50,031	40,627
Transaction and operations support	39,614	32,087
Depreciation and amortization	11,680	8,432
Occupancy, equipment and supplies	10,417	8,618
Interest expense	1,958	1,947
 Total expenses	 113,700	 91,711
 Income before income taxes	 44,091	 45,688
Income tax expense	14,252	14,753
 <b>NET INCOME</b>	 <b>\$ 29,839</b>	 <b>\$ 30,935</b>
 <b>BASIC EARNINGS PER SHARE</b>	 <b>\$ 0.36</b>	 <b>\$ 0.37</b>
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$ 0.35</b>	<b>\$ 0.36</b>
 Average outstanding common shares	 83,469	 84,369
Additional dilutive shares related to stock-based compensation	1,323	1,589
 Average outstanding and potentially dilutive common shares	 84,792	 85,958

See Notes to Consolidated Financial Statements

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**MONEYGRAM INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**UNAUDITED**

<b>FOR THE THREE MONTHS ENDED MARCH 31,</b> <i>(Amounts in thousands)</i>	<b>2007</b>	<b>2006</b>
<b>NET INCOME</b>	\$ 29,839	\$ 30,935
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>		
Net unrealized (losses) on available-for-sale securities:		
Net holding (losses) arising during the period, net of tax (benefit) of (\$8,891) and (\$18,880), respectively	(14,504)	(30,804)
Reclassification adjustment for net realized (gains) losses included in net income, net of tax (expense) benefit of (\$328) and \$160, respectively	(536)	260
	(15,040)	(30,544)
Net unrealized (losses) gains on derivative financial instruments:		
Net holding (losses) gains arising during the period, net of tax (benefit) expense of (\$1,630) and \$4,620, respectively	(2,658)	7,538
Reclassification adjustment for net unrealized (gains) losses included in net income, net of tax (expense) benefit of (\$1,828) and \$427, respectively	(2,982)	697
	(5,640)	8,235
Prior service costs for pension and postretirement benefit plans:		
Reclassification of prior service costs for pension and postretirement benefit plans recorded to net income, net of tax benefit of \$18 and \$0, respectively	29	
	29	
Net actuarial loss for pension and postretirement benefit plans:		
Reclassification of net actuarial loss for pension and postretirement benefit plans recorded to net income, net of tax benefit of \$417 and \$0, respectively	662	
\	662	
Unrealized foreign currency translation gains, net of tax expense of \$182 and \$822, respectively	296	1,340
Other comprehensive loss	(19,693)	(20,969)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 10,146</b>	<b>\$ 9,966</b>

See Notes to Consolidated Financial Statements.

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**MONEYGRAM INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
UNAUDITED**

<b>FOR THE THREE MONTHS ENDED MARCH 31,</b> <i>(Amounts in thousands)</i>	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 29,839	\$ 30,935
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	11,680	8,432
Investment impairment charges	978	792
Provision of deferred income taxes		1,285
Net gain on sale of investments	(1,842)	(372)
Net amortization of investment premiums and discounts	(3,682)	(451)
Provision for uncollectible receivables	1,909	741
Other non-cash items, net	3,348	(3,389)
Changes in foreign currency translation adjustments	296	1,340
Changes in other assets	3,609	(5,013)
Changes in accounts payable and other liabilities	(7,806)	66
 Total adjustments	 8,490	 3,431
Change in cash and cash equivalents (substantially restricted)	(296,356)	(130,306)
Change in trading investments, net (substantially restricted)	38,500	105,700
Change in receivables, net (substantially restricted)	157,119	(32,812)
Change in payment service obligations	(80,032)	(71,589)
 Net cash used in operating activities	 (142,440)	 (94,641)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments classified as available-for-sale	309,575	92,939
Proceeds from maturities of investments classified as available-for-sale	201,821	192,719
Purchases of investments classified as available-for-sale	(336,785)	(163,022)
Purchases of property and equipment	(14,929)	(20,597)
Cash paid for acquisitions	(55)	
 Net cash provided by investing activities	 159,627	 102,039
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds and tax benefit from exercise of share-based compensation	1,772	9,551
Purchase of treasury stock	(14,733)	(13,536)
Cash dividends paid	(4,226)	(3,413)
 Net cash used in financing activities	 (17,187)	 (7,398)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH AND CASH EQUIVALENTS Beginning of period</b>		
 <b>CASH AND CASH EQUIVALENTS End of period</b>	 \$	 \$



See Notes to Consolidated Financial Statements

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**MONEYGRAM INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**UNAUDITED**

<i>(Amounts in thousands, except per share data)</i>	<b>Common</b>	<b>Additional</b>	<b>Retained</b>	<b>Unearned Employee Benefit and Other</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Common Stock in Treasury</b>	<b>Total</b>
<b>December 31, 2006</b>	\$886	\$71,900	\$723,106	\$(17,185)	\$ (6,292)	\$(103,352)	\$669,063
Cumulative effect of adoption of FIN 48			(21,963)				(21,963)
Net income			29,839				29,839
Dividends (\$0.05 per share)			(4,226)				(4,226)
Employee benefit plans		(528)		6,477		(2,135)	3,814
Treasury shares acquired						(14,733)	(14,733)
Unrealized foreign currency translation adjustment					296		296
Unrealized loss on available-for-sale securities					(15,040)		(15,040)
Unrealized loss on derivative financial instruments					(5,640)		(5,640)
Prior service cost for pension and postretirement benefits, net of tax					29		29
Unrealized net actuarial losses on pension and postretirement benefits, net of tax					662		662
<b>March 31, 2007</b>	\$886	\$71,372	\$726,756	\$(10,708)	\$(25,985)	\$(120,220)	\$642,101

See Notes to Consolidated Financial Statements

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**MONEYGRAM INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**1. Basis of Presentation**

The accompanying unaudited consolidated financial statements of MoneyGram International, Inc. ( MoneyGram or the Company ) have been prepared in accordance with accounting principles generally accepted in the United States of America and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for future periods. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

**2. Acquisition**

On May 31, 2006, MoneyGram completed the acquisition of Money Express, the Company s former super agent in Italy. In connection with the acquisition, the Company formed MoneyGram Payment Systems Italy, a wholly-owned subsidiary, to operate the former Money Express network. The acquisition provides the Company with the opportunity for further network expansion and more control of marketing and promotional activities in the region.

MoneyGram acquired Money Express for \$15.0 million, subject to purchase price adjustments. The acquisition cost includes \$1.3 million of transaction costs and the forgiveness of \$0.7 million of liabilities. The Company is in the process of finalizing the valuation of intangible assets, among other items from this acquisition, which may result in adjustment to the purchase price allocation. Purchased intangible assets of \$7.2 million, consisting primarily of agent contracts and a non-compete agreement, will be amortized over useful lives ranging from three to five years.

Preliminary goodwill of \$17.0 million was recorded and assigned to the Company s Global Funds Transfer segment. The Company will finalize the purchase price allocation during the second quarter of 2007.

The operating results of Money Express subsequent to May 31, 2006 are included in the Company s Consolidated Statements of Income. The financial impact of the acquisition is not material to the Consolidated Balance Sheets or Consolidated Statements of Income.

**3. Unrestricted Assets**

The Company is regulated by various state agencies which generally require us to maintain liquid assets and investments with an investment rating of A or higher in an amount generally equal to the payment service obligation for those regulated payment instruments, namely teller checks, agent checks, money orders and money transfers. Consequently, a significant amount of cash and cash equivalents, receivables and investments are restricted to satisfy the liability to pay the face amount of regulated payment service obligations upon presentment. The Company is not regulated by state agencies for payment service obligations resulting from outstanding cashier s checks. However, the Company restricts a portion of the funds related to these payment instruments due to contractual arrangements and Company policy. Assets restricted for regulatory or contractual reasons are not available to satisfy working capital or other financing requirements. The regulatory and contractual requirements do not require the Company to specify individual assets held to meet the Company s payment service obligations, nor is the Company required to deposit specific assets into a trust, escrow or other special account. Rather, the Company must maintain a pool of liquid assets. No third party places limitations, legal or otherwise, on the Company regarding the use of its individual liquid assets. The Company is able to withdraw, deposit and/or sell its individual liquid assets at will, with no prior notice or penalty, provided the Company maintains a total pool of liquid assets sufficient to meet the regulatory and contractual requirements.

The Company has unrestricted cash and cash equivalents, receivables and investments to the extent those assets exceed all payment service obligations. These amounts are generally available. However, management considers a portion of these amounts as providing additional assurance that regulatory requirements are maintained during the normal fluctuations in the value of investments. The following table shows the total amount of unrestricted assets at March 31, 2007 and December 31, 2006, respectively:



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<i>(Amounts in thousands)</i>	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Cash and cash equivalents (substantially restricted)	\$ 1,274,768	\$ 973,931
Receivables (substantially restricted)	1,599,654	1,758,682
Trading investments (substantially restricted)	107,000	145,500
Available for sale investments (substantially restricted)	5,490,141	5,690,600
	8,471,563	8,568,713
Amounts restricted to cover payment service obligations	(8,129,757)	(8,209,789)
Unrestricted assets	\$ 341,806	\$ 358,924

**4. Investments (Substantially Restricted)**

The amortized cost and fair value of available-for-sale investments were as follows at March 31, 2007:

<i>(Amounts in thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Obligations of states and political subdivisions	\$ 624,034	\$21,211	\$ (181)	\$ 645,064
Commercial mortgage-backed securities	383,307	5,861	(1,020)	388,148
Residential mortgage-backed securities	1,602,965	4,494	(18,628)	1,588,831
Other asset-backed securities	2,220,120	31,964	(31,093)	2,220,991
U.S. government agencies	342,982	2,413	(4,763)	340,632
Corporate debt securities	271,126	7,461	(396)	278,191
Preferred and common stock	30,175	3	(1,894)	28,284
Total	\$5,474,709	\$73,407	\$(57,975)	\$5,490,141

The amortized cost and fair value of available-for-sale investments were as follows at December 31, 2006:

<i>(Amounts in thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Obligations of states and political subdivisions	\$ 765,525	\$25,006	\$ (490)	\$ 790,041
Commercial mortgage-backed securities	585,611	6,659	(2,148)	590,122
Residential mortgage-backed securities	1,623,220	3,876	(23,219)	1,603,877
Other asset-backed securities	1,992,164	36,920	(7,839)	2,021,245
U.S. government agencies	342,749	2,564	(6,589)	338,724
Corporate debt securities	311,465	7,745	(470)	318,740
Preferred and common stock	30,175	13	(2,337)	27,851
Total	\$5,650,909	\$82,783	\$(43,092)	\$5,690,600

At March 31, 2007 and December 31, 2006, no investments were classified as held-to-maturity. Trading investments have contractual maturities ranging from the year 2029 to 2049, with auction dates typically 28 days after the date the Company purchases the security. The amortized cost and fair value of available-for-sale securities at March 31, 2007, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations, sometimes without call or prepayment penalties. Maturities of mortgage-backed and other asset-backed securities depend on the repayment characteristics and experience of the underlying obligations.

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<i>(Amounts in thousands)</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
In one year or less	\$ 20,222	\$ 20,279
After one year through five years	443,202	448,415
After five years through ten years	505,951	518,814
After ten years	268,767	276,379
Mortgage-backed and other asset-backed securities	4,206,392	4,197,970
Preferred and common stock	30,175	28,284
<b>Total</b>	<b>\$5,474,709</b>	<b>\$5,490,141</b>

At March 31, 2007 and December 31, 2006, net unrealized gains of \$15.4 million (\$9.6 million net of tax) and \$39.7 million (\$24.6 million net of tax), respectively, are included in the Consolidated Balance Sheets in Accumulated other comprehensive loss. During the three months ended March 31, 2007 and 2006, gains (losses) of \$0.5 million and \$(0.3) million, respectively, were reclassified from Accumulated other comprehensive loss to earnings in connection with the sale of the underlying securities.

Gross realized gains and losses on sales of investments, using the specific identification method, and other-than-temporary impairments were as follows:

<b>Three Months Ended March 31,</b> <i>(Amounts in Thousands)</i>	<b>2007</b>	<b>2006</b>
Gross realized gains	\$ 3,793	\$ 1,637
Gross realized losses	(1,951)	(1,265)
Other-than-temporary impairments	(978)	(792)
<b>Net securities gains (losses)</b>	<b>\$ 864</b>	<b>\$ (420)</b>

In the first quarter of 2007, impairments related to investments backed by home equity loans. In the first quarter of 2006, impairments related primarily to investments backed by automobile and aircraft collateral.

At March 31, 2007, the available-for-sale investment portfolio had the following aged unrealized losses:

<i>(Amounts in Thousands)</i>	<b>Less than 12 months</b>		<b>12 months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Obligations of states and political subdivisions	\$ 5,264	\$ (26)	\$ 5,192	\$ (155)	\$ 10,456	\$ (181)
Commercial mortgage-backed securities	44,602	(398)	38,161	(622)	82,763	(1,020)
Residential mortgage-backed securities	228,585	(779)	1,093,686	(17,849)	1,322,271	(18,628)
Other asset-backed securities	732,568	(24,710)	292,473	(6,383)	1,025,041	(31,093)
U.S. government agencies			322,941	(4,763)	322,941	(4,763)

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Corporate debt securities	30,774	(14)	14,619	(382)	45,393	(396)
Preferred and common stock	15,540	(167)	12,738	(1,727)	28,278	(1,894)
	\$1,057,333	\$(26,094)	\$1,779,810	\$(31,881)	\$2,837,143	\$(57,975)



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At December 31, 2006, the available-for-sale investment portfolio had the following aged unrealized losses:

<i>(Amounts in Thousands)</i>	<b>Less than 12 months</b>		<b>12 months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Obligations of states and political subdivisions	\$ 22,467	\$ (180)	\$ 25,075	\$ (310)	\$ 47,542	\$ (490)
Commercial mortgage-backed securities	97,747	(812)	110,859	(1,336)	208,606	(2,148)
Residential mortgage-backed securities	173,179	(653)	1,213,278	(22,566)	1,386,457	(23,219)
Other asset-backed securities	292,742	(2,066)	318,944	(5,773)	611,686	(7,839)
U.S. government agencies			321,117	(6,589)	321,117	(6,589)
Corporate debt securities	6,306	(7)	60,832	(463)	67,138	(470)
Preferred and common stock	5,663	(45)	12,173	(2,292)	17,836	(2,337)
	\$598,104	\$(3,763)	\$2,062,278	\$(39,329)	\$2,660,382	\$(43,092)

The Company has determined that the unrealized losses reflected above represent temporary impairments. As of March 31, 2007 and December 31, 2006, 169 and 188 securities had unrealized losses for more than 12 months, respectively. The Company believes that the unrealized losses generally are caused by liquidity discounts and risk premiums required by market participants in response to temporary market conditions, rather than a fundamental weakness in the credit quality of the issuer or underlying assets or changes in the expected cash flows from the investments. Temporary market conditions at March 31, 2007 and December 31, 2006 are primarily due to changes in interest rates. The Company has both the intent and ability to hold these investments to maturity.

Of the \$58.0 million of unrealized losses at March 31, 2007, \$3.1 million relate to one residential mortgage-backed security and one asset-backed security, which each have an unrealized loss greater than 20 percent of amortized cost. These securities were evaluated considering factors such as the financial condition and near-term and long-term prospects of the issuer and deemed to be temporarily impaired. The remaining \$54.9 million of unrealized losses at March 31, 2007 relate to securities with an unrealized loss position of less than 20 percent of amortized cost, the degree of which suggests that these securities do not pose a high risk of being or becoming other than temporarily impaired. Of the \$54.9 million, \$43.0 million relate to unrealized losses on investment grade fixed income securities. Investment grade is defined as a security having a Moody's equivalent rating of Aaa, Aa, A or Baa or a Standard & Poor's equivalent rating of AAA, AA, A or BBB. The remaining \$11.9 million is comprised of \$9.4 million of U.S. government agency fixed income securities, \$2.4 million of asset-backed securities and \$0.1 million of residential mortgage-backed securities.

**5. Derivative Financial Instruments**

The notional amount of the Company's swap agreements totaled \$2.1 billion and \$2.6 billion at March 31, 2007 and December 31, 2006, respectively, with an average fixed pay rate of 4.2 percent and 4.3 percent, respectively, and an average variable receive rate of 5.2 percent at both March 31, 2007 and December 31, 2006. The variable rate portion of the swaps is generally based on Treasury bill, federal funds or 6-month LIBOR. As the swap payments are settled, the net difference between the fixed amount the Company pays and the variable amount the Company receives is reflected in the Consolidated Statements of Income in Investment commissions expense. The amount recognized in earnings due to ineffectiveness of the cash flow hedges was not material for the three months ended March 31, 2007 and 2006. As of March 31, 2007, the Company estimates that \$6.3 million (net of tax) of the unrealized gain included

in Accumulated other comprehensive loss in the Consolidated Balance Sheets will be recognized in the Consolidated Statements of Income in Investment commissions expense within the next 12 months as the swap payments are settled.

**6. Sale of Receivables**

The balance of sold receivables as of March 31, 2007 and December 31, 2006 was \$375.4 million and \$297.6 million, respectively. The average receivables sold totaled \$370.1 million and \$393.0 million during the three months ended March 31, 2007 and 2006, respectively. The expense of selling the agent receivables is included in the Consolidated Statements of Income in Investment commissions expense and totaled \$6.1 million and \$5.7 million for the three months ended March 31, 2007 and 2006, respectively.

**7. Income Taxes**

The Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation ( FIN ) No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. The cumulative effect of applying FIN No. 48 is reported as an adjustment to the opening balance of retained income. As a result of the implementation of FIN No. 48, the Company recognized a \$29.6 million

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increase in the liability for unrecognized tax benefits, a \$7.6 million increase in deferred tax assets and a \$22.0 million reduction to the opening balance of retained income.

As of January 1, 2007, the liability for unrecognized tax benefits was \$39.1 million, which is included in Accounts payable and other liabilities in the Consolidated Balance Sheets. Of the \$39.1 million, \$31.4 million could affect the effective tax rate if recognized. The balance at January 1, 2007 includes \$5.7 million for interest and penalties. The Company records interest and penalties for unrecognized tax benefits in Income tax expense in the Consolidated Statements of Income. During the three months ended March 31, 2007, the Company recognized \$0.8 million in interest and penalties.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examinations for years prior to 2001. The Company is currently subject to certain state and foreign income tax examinations for 2001 through 2004.

For the three months ended March 31, 2007 and 2006, the effective tax rate was 32.3 percent.

**8. Stockholders Equity**

As of March 31, 2007, the Company has 83,242,682 shares of common stock outstanding. During the three months ended March 31, 2007, the Company repurchased 500,000 shares of its common stock at an average cost of \$29.47 per share. As of March 31, 2007, the Company has remaining authorization to purchase up to 1,325,000 shares of its common stock. Following is a summary of common stock issued and outstanding:

<i>(Amounts in thousands)</i>	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Common shares issued	88,556	88,556
Treasury stock	(4,857)	(4,286)
Restricted stock	(251)	(323)
Shares held in employee equity trust, at cost	(205)	(456)
Common shares outstanding	83,243	83,491

Following is a summary of treasury stock share activity during the three months ended March 31, 2007 and 2006:

<i>(Amounts in thousands)</i>	<b>Treasury Stock Shares</b>
Balance at December 31, 2005	2,701
Stock repurchases	484
Submission of shares for withholding taxes upon exercise of stock options and release of restricted stock, net of issuances and forfeitures	64
Balance at March 31, 2006	3,249
Balance at December 31, 2006	4,286
Stock repurchases	500
	71

Submission of shares for withholding taxes upon exercise of stock options and release of restricted stock

Balance at March 31, 2007 4,857

The Company has an employee equity trust (the Trust ) used to fund the issuance of shares under employee compensation and benefit plans. The fair value of the shares held by the Trust is recorded in the Unearned employee benefits component in the Consolidated Balance Sheets and is reduced as shares are released to fund employee benefits. During the three months ended March 31, 2007, the Company released 251,846 shares upon the exercise of stock options and the vesting of restricted stock.

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The components of accumulated other comprehensive loss include:

<i>(Amounts in thousands)</i>	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Unrealized gain on securities classified as available-for-sale	\$ 9,567	\$ 24,607
Unrealized gain on derivative financial instruments	5,705	11,345
Cumulative foreign currency translation adjustments	6,307	6,011
Prior service cost for pension and postretirement benefits, net of tax	(1,086)	(1,115)
Unrealized losses on pension and postretirement benefits, net of tax	(46,478)	(47,140)
Accumulated other comprehensive loss	\$(25,985)	\$ (6,292)

**9. Pensions and Other Benefits**

Net periodic pension benefit expense for the Company's defined benefit pension plan, the combined supplemental executive retirement plans ( SERPs ) and defined benefit postretirement plans for the three months ended March 31, 2007 and 2006 includes the following components:

<b>Three Months Ended March 31, (Amounts in thousands)</b>	<b>Pension and SERPs</b>		<b>Postretirement Benefits</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Service cost	\$ 574	\$ 480	\$174	\$159
Interest cost	2,975	2,896	209	179
Expected return on plan assets	(2,521)	(2,231)		
Amortization of prior service cost	121	176	(74)	(74)
Recognized net actuarial loss	1,057	1,080	23	6
Net periodic pension cost	\$ 2,206	\$ 2,401	\$332	\$270

Benefits paid through the defined benefit pension plan and the combined SERPs were \$4.1 million and \$4.0 million for the three months ended March 31, 2007 and 2006, respectively. The Company made contributions to the combined SERPs totaling \$0.9 million during the three months ended March 31, 2007. No contributions were made to the defined benefit pension plan during the three months ended March 31, 2007. The Company made contributions to the defined benefit pension plan and the combined SERPs totaling \$2.9 million during the three months ended March 31, 2006. Benefits paid through, and contributions made to, the defined benefit postretirement plan were less than \$0.1 million during each of the three months ended March 31, 2007 and 2006.

The net loss and prior service cost for the defined benefit pension plan and SERPs that the Company amortized from Accumulated other comprehensive loss into net periodic benefit expense was \$1.1 million (\$0.7 million, net of tax) and \$0.1 million (less than \$0.1 million, net of tax), respectively, during the first quarter of 2007. The net loss and prior service credit for the defined benefit postretirement plan that the Company amortized from Accumulated other comprehensive loss into net periodic benefit expense was less than \$0.1 million (less than \$0.1 million, net of tax) and \$0.1 million (less than \$0.1 million, net of tax), respectively, during the first quarter of 2007.

Contribution expense for the 401(k) defined contribution plan totaled \$0.8 million and \$0.7 million for the three months ended March 31, 2007 and 2006, respectively. In addition, the Company made discretionary profit sharing contributions to the 401(k) defined contribution plan totaling \$2.5 million and \$2.1 million during the three months

ended March 31, 2007 and 2006, respectively.

**10. Debt**

On March 31, 2007 and December 31, 2006, the interest rate under the Company's bank credit facility was 5.85 percent and 5.86 percent, respectively, exclusive of the effect of commitment fees and other costs, and the facility fee was 0.125 percent. At March 31, 2007 and December 31, 2006, the interest rate debt swaps used to hedge the cash flows of the Company's variable rate debt had an average fixed pay rate of 4.3 percent and an average variable receive rate of 4.7 percent and 4.6 percent, respectively. See Note 5 for further information regarding the Company's portfolio of derivative financial instruments.

**Table of Contents****11. Stock-Based Compensation**

Option awards are granted with an exercise price equal to the quoted market price (average of the high and low price) of the Company's common stock on the date of grant. Stock options granted in 2007 become exercisable over a three-year period in equal installments and have a term of ten years. For purposes of determining the fair value of stock option awards, the Company uses the Black-Scholes single option pricing model and the assumptions set forth in the following table. Expected volatility is based on the historical volatility of the price of the Company's common stock since the spin-off on June 30, 2004. The Company uses historical information to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.

	2007	2006
Expected dividend yield	0.7%	0.6%
Expected volatility	29.1%	26.5%
Risk-free interest rate	4.6%	4.7%
Expected life	6.5 years	6.5 years

Following is a summary of stock option activity:

	Shares	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$000)
Options outstanding at December 31, 2006	4,099,514	\$ 19.52		
Granted	394,500	29.26		
Exercised	(77,616)	18.05		
Forfeited	(8,870)	22.37		
Options outstanding at March 31, 2007	4,407,528	\$ 20.41	5.23 years	\$ 33,756
Vested or expected to vest at March 31, 2007	4,004,556	\$ 20.53	5.48 years	\$ 29,453
Options exercisable at March 31, 2007	3,423,687	\$ 18.94	4.42 years	\$ 30,827

The weighted-average grant date fair value of options granted during 2007 and 2006 was \$11.64 and \$10.38, respectively.

The Company has granted both restricted stock and performance-based restricted stock. Restricted stock typically vests three years from the date of grant. The vesting of performance-based restricted stock is contingent upon the Company obtaining certain financial thresholds established on the grant date. Provided the incentive performance targets established in the year of grant are achieved, the performance-based restricted stock awards granted subsequent to 2002 will vest in a three-year period from the date of grant in an equal number of shares each year. Future vesting in all cases is subject generally to continued employment with MoneyGram. Holders of restricted stock and

performance-based restricted stock have the right to receive dividends and vote the shares, but may not sell, assign, transfer, pledge or otherwise encumber the stock.



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Restricted stock awards are valued at the quoted market price of the Company's common stock on the date of grant and expensed using the straight-line method over the vesting or service period of the award. Following is a summary of restricted stock activity:

	Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding at December 31, 2006	322,998	\$22.39
Granted	92,430	29.25
Vested and issued	(164,028)	19.97
Forfeited		
Restricted stock outstanding at March 31, 2007	251,400	\$26.50

Following is a summary of pertinent information related to the Company's stock-based awards:

<b>Three Months Ended March 31,</b> <i>(Amounts in Thousands)</i>	<b>2007</b>	<b>2006</b>
Fair value of options vesting during period	\$2,595	\$ 5,559
Fair value of restricted stock vesting during period	4,955	11,607
Expense recognized related to options	1,046	581
Expense recognized related to restricted stock	548	600
Intrinsic value of options exercised	860	3,865
Cash received from option exercises	1,338	8,130
Tax benefit realized for tax deductions from option exercises	434	1,421

As of March 31, 2007, the Company's unvested stock-based awards had the following unrecognized compensation expense and remaining vesting periods:

<i>(Amounts in Thousands)</i>	Options	Restricted Stock
Unrecognized compensation expense	\$ 8,701	\$5,030
Remaining weighted average vesting period	2.17 years	2.0 years

As of March 31, 2007, the Company has remaining authorization to issue awards of up to 6,429,092 shares of common stock under its 2005 Omnibus Incentive Plan.

For the three months ended March 31, 2007 and 2006, options to purchase 581,777 shares and 19,556 shares of common stock, respectively, were not included in the computation of diluted earnings per share because the effect would be antidilutive. Options are generally antidilutive if the exercise price of the option is greater than the quoted market price of the Company's common stock for the period presented.

**12. Commitments and Contingencies**

At March 31, 2007, the Company had various reverse repurchase agreements, letters of credit and overdraft facilities totaling \$2.3 billion to assist in the management of investments and the clearing of payment service obligations. Included in this amount is an uncommitted reverse purchase agreement with one of the clearing banks totaling

\$1.0 billion. Overdraft facilities consist of \$11.1 million of letters of credit, all of which are outstanding at March 31, 2007. Letters of credit totaling \$1.1 million reduce amounts available under the revolving credit agreement. Fees on the letters of credit are paid in accordance with the terms of the revolving credit agreement.

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The Company has agreements with certain other co-investors to provide funds related to investments in limited partnership interests. As of March 31, 2007, the total amount of unfunded commitments related to these agreements was \$2.0 million.

**13. New Accounting Pronouncements**

In February 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 155, *Accounting for Certain Hybrid Instruments* an amendment of FASB Statements No. 133 and 140. SFAS No. 155 permits companies to measure any hybrid instrument in its entirety at fair value. Changes in fair value are recorded in income. Previously, hybrid instruments were required to be separated into two instruments, a derivative and host. Generally, the derivative instrument was recorded at fair value. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irreversible. The standard also requires that beneficial interests in securitized financial assets be evaluated for freestanding or embedded derivatives. The Company adopted SFAS No. 155 on January 1, 2007 with no material impact to our Consolidated Financial Statements.

In July 2006, the FASB issued FASB Interpretation ( FIN ) No. 48. FIN No. 48 is an interpretation of SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an entity's tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition of tax positions. As discussed in Note 7, the Company adopted FIN No. 48 on January 1, 2007.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement does not require any new fair value measurement, but it provides guidance on how to measure fair value under other accounting pronouncements. SFAS No. 157 also establishes a fair value hierarchy to classify the source of information used in fair value measurements. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad categories. This standard is effective for the Company on January 1, 2008. The Company is evaluating the impact of this pronouncement on its Consolidated Financial Statements.

In January 2007, the FASB issued SFAS No. 133 Implementation Issue No. B40, *Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets* ( DIG B40 ). DIG B40 provides the circumstances in which an embedded derivative of a securitized interest in a prepayable financial asset would not be subject to bifurcation. The Company adopted DIG B40 on January 1, 2007 with no material impact to our Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The election to measure the financial instrument at fair value is made on an instrument-by-instrument basis for the entire instrument, with few exceptions, and is irreversible. SFAS No. 159 is effective for the Company on January 1, 2008. The Company is evaluating the impact of this pronouncement on its Consolidated Financial Statements.

**14. Minimum Commission Guarantees**

In limited circumstances as an incentive to new or renewing agents, the Company may grant minimum commission guarantees to an agent for a specified period of time at a contractually specified amount. Under the guarantees, the Company will pay to the agent the difference between the contractually specified minimum commission and the actual commissions earned by the agent.

As of March 31, 2007, the minimum commission guarantees had a maximum payment of \$27.7 million over a weighted average remaining term of 3.0 years. The maximum payment is calculated as the contractually guaranteed minimum commission times the remaining term of the contract and, therefore, assumes that the agent generates no money transfer transactions during the remainder of its contract. In fiscal 2006, the Company paid \$3.0 million under these guarantees, or approximately 40 percent of the estimated maximum payment for the year. As of March 31, 2007, the liability for minimum commission guarantees is \$5.0 million.

**15. Segment Information**

The Company's business is conducted through two reportable segments, Global Funds Transfer and Payment Systems, which are determined based upon factors such as the type of customers, the nature of products and services provided

and the distribution channels used to provide those services. The following table reconciles segment operating income to the income from continuing operations before income taxes as reported in the Consolidated Financial Statements:

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<b>Three Months Ended March 31, (Amounts in Thousands)</b>	<b>2007</b>	<b>2006</b>
Revenue:		
Global Funds Transfer:		
Money transfer, including bill payment	\$ 190,104	\$ 144,987
Retail money order	36,532	38,000
	226,636	182,987
Payment Systems:		
Official check and outsourcing services	76,169	72,942
Other	7,028	7,743
	83,197	80,685
Other	218	
Total revenue	\$ 310,051	\$ 263,672
Operating Income:		
Global Funds Transfer	\$ 37,551	\$ 39,907
Payment Systems	9,566	10,323
	47,117	50,230
Interest expense	(1,958)	(1,947)
Other unallocated expenses	(1,068)	(2,595)
Income before income taxes	\$ 44,091	\$ 45,688

The following table presents depreciation and amortization expense and capital expenditures by segment:

<b>Three Months Ended March 31, (Amounts in Thousands)</b>	<b>2007</b>	<b>2006</b>
Depreciation and amortization:		
Global Funds Transfer	\$ 10,451	\$ 7,482
Payment Systems	1,229	950
Total depreciation and amortization	\$ 11,680	\$ 8,432

Capital expenditures:		
Global Funds Transfer	\$ 13,409	\$ 17,143
Payment Systems	1,520	3,454
Total capital expenditures	\$ 14,929	\$ 20,597

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The following table presents revenue by major geographic area:

<b>Three Months Ended March 31, (Amounts in Thousands)</b>	<b>2007</b>	<b>2006</b>
United States	\$ 244,020	\$ 213,754
Foreign	66,031	49,918
Total revenue	\$ 310,051	\$ 263,672

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with MoneyGram International, Inc.'s (MoneyGram, the Company, we, us and our) consolidated financial statements and related notes. This discussion contains forward-looking statements that involve risks and uncertainties. MoneyGram's actual results could differ materially from those anticipated due to various factors discussed under Forward-Looking Statements and elsewhere in this Quarterly Report.

**Summary**

Following are significant items affecting operating results in the first quarter of 2007:

Our Global Funds Transfer segment revenue grew 24 percent over the first quarter of 2006, driven by 30 percent growth in money transfer transaction volume and 31 percent money transfer revenue growth.

The net investment margin of 2.21 percent (see Table 3) decreased from 2.31 percent in the first quarter of 2006, primarily due to lower levels of cash recoveries from previously impaired securities and lower average investable balances.

Fee and other revenue increased 26 percent from the first quarter of 2006 to \$213 million, driven primarily by growth in money transfer transaction volume.

Expenses increase of 24 percent, driven by increased headcount, higher advertising and marketing investments, infrastructure costs supporting the growth in money transfer, and the incremental expenses attributable to the acquisition of our super agent in Italy, Money Express, which we acquired in the second quarter of 2006.

**Table of Contents****Table 1 Results of Operations**

<b>Three Months Ended March 31,</b> <i>(Amounts in Thousands)</i>	<b>2007</b>	<b>2006</b>	<b>2007 vs. 2006 (%)</b>	<b>As a Percentage of Total Revenue</b>	
				<b>2007 (%)</b>	<b>2006 (%)</b>
Revenue:					
Fee and other revenue	\$213,133	\$169,132	26	69	64
Investment revenue	96,054	94,960	1	31	36
Net securities gains (losses)	864	(420)	NM	0	0
<b>Total revenue</b>	<b>310,051</b>	<b>263,672</b>	<b>18</b>	<b>100</b>	<b>100</b>
Fee commissions expense	90,012	67,484	33	29	26
Investment commissions expense	62,248	58,789	6	20	22
<b>Total commissions expense</b>	<b>152,260</b>	<b>126,273</b>	<b>21</b>	<b>49</b>	<b>48</b>
<b>Net revenue</b>	<b>157,791</b>	<b>137,399</b>	<b>15</b>	<b>51</b>	<b>52</b>
Expenses:					
Compensation and benefits	50,031	40,627	23	16	15
Transaction and operations support	39,614	32,087	23	13	12
Depreciation and amortization	11,680	8,432	39	4	3
Occupancy, equipment and supplies	10,417	8,618	21	3	3
Interest expense	1,958	1,947	1	1	1
<b>Total expenses</b>	<b>113,700</b>	<b>91,711</b>	<b>24</b>	<b>37</b>	<b>34</b>
<b>Income before income taxes</b>	<b>44,091</b>	<b>45,688</b>	<b>(3)</b>	<b>14</b>	<b>18</b>
<b>Income tax expense</b>	<b>14,252</b>	<b>14,753</b>	<b>(3)</b>	<b>4</b>	<b>6</b>
<b>Net income</b>	<b>\$ 29,839</b>	<b>\$ 30,935</b>	<b>(4)</b>	<b>10</b>	<b>12</b>

NM = Not meaningful

For the first quarter of 2007, total revenue and net revenue grew 18 percent and 15 percent, respectively, over the first quarter of 2006 due to transaction growth in the money transfer business. Total expenses, excluding commissions, increased 24 percent over the first quarter of 2006, primarily due to headcount, marketing expenditures and investment in compliance and technology infrastructure. Headcount was higher as we increased our support functions, particularly customer service, and staffed our retail locations in Western Europe to support the expansion of the money transfer business and also added headcount from the acquisition of Money Express in the second quarter of 2006. Marketing expenditures increased due to global brand initiatives.

**Table 2 Net Fee Revenue Analysis**

<b>Three Months Ended March 31,</b>	<b>2007</b>	<b>2006</b>	<b>2007 vs. 2006</b>
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*(Amounts in Thousands)*

Fee and other revenue	\$213,133	\$169,132	26%
Fee commissions expense	(90,012)	(67,484)	33%
Net fee revenue	\$123,121	\$101,648	21%
Commissions as a % of fee and other revenue		42.2%	39.9%

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Fee and other revenue is comprised primarily of fees on money transfers and also includes fees on money orders and official check transactions. It is a growing portion of our total revenue, increasing to 69 percent of total revenue for the first quarter of 2007 from 64 percent for the same period in 2006. Fee and other revenue in the first quarter of 2007 increased by 26 percent compared to the same period in the prior year, primarily driven by the growth in the money transfer business. Growth in money transfer revenue (including urgent bill payment) outperformed growth in money transfer transaction volume for the first time in the last four quarters due to the lapping of our simplified pricing initiatives and a stronger Euro exchange rate. We anticipate money transfer revenue and money transfer volume growth percentages will remain closely correlated subject to fluctuations in the Euro exchange rate, pricing initiatives and product mix (money transfer transaction growth versus urgent bill payment transaction growth). See further discussion under Table 6 Global Funds Transfer Segment.

Fee commissions consist primarily of fees paid to our third-party agents for the money transfer service. For the first quarter of 2007, fee commissions expense increased 33 percent compared to the same period in 2006, primarily driven by higher money transfer transaction volume and tiered commissions. Tiered commissions are commission rates that are adjusted upward, subject to certain caps, as an agent's transaction volume grows. We use tiered commission rates as an incentive for select agents to grow transaction volume by paying for performance and allowing them to participate in adding market share for MoneyGram.

Net fee revenue increased 21 percent in the first quarter of 2007 compared to the same period in 2006. The increase in net fee revenue is driven by the increase in money transfer transactions. Growth in net fee revenue was less than fee and other revenue growth, primarily due to tiered commissions. In addition, our payment systems products fee revenue decreased 13 percent in the first quarter of 2007 compared to the first quarter of 2006 due to lower transaction volumes.

**Table 3 Net Investment Revenue Analysis**

<b>Three Months Ended March 31, (Amounts in Thousands)</b>	<b>2007</b>	<b>2006</b>	<b>2007 vs. 2006</b>
Components of net investment revenue:			
Investment revenue	\$ 96,054	\$ 94,960	1%
Investment commissions expense (1)	(62,248)	(58,789)	6%
Net investment revenue	\$ 33,806	\$ 36,171	-7%
Average balances:			
Cash equivalents and investments	\$6,193,230	\$6,343,281	-2%
Payment service obligations (2)	4,662,777	4,792,925	-3%
Average yields earned and rates paid (3) :			
Investment yield	6.29%	6.07%	0.22%
Investment commission rate	5.41%	4.97%	0.44%
Net investment margin	2.21%	2.31%	-0.10%

(1) Investment commissions expense includes payments made

to financial institution customers based on short-term interest rate indices on the outstanding balances of official checks sold by that financial institution, as well as costs associated with swaps and the sale of receivables program.

- (2) Commissions are paid to financial institution customers based upon average outstanding balances generated by the sale of official checks only. The average balance in the table reflects only the payment service obligations for which commissions are paid and does not include the average balance of the sold receivables (\$370.1 million and \$393.0 million for the three months ended March 31, 2007 and 2006, respectively) as

these are not recorded in the Consolidated Balance Sheets.

- (3) Average yields/rates are calculated by dividing the applicable amount shown in the Components of net investment revenue section by the applicable amount shown in the Average balances section, divided by the number of days in the period presented and multiplied by the number of days in the year. The Net investment margin is calculated by dividing Net investment revenue by the Cash equivalents and investments average balance, divided by the number of days in the period presented and multiplied by the number of days in the year.

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Investment revenue increased one percent in the first quarter of 2007 compared to the same period in 2006 due to higher yields on the portfolio, partially offset by lower investable balances. We anticipate that our average investable balances will be in the range of \$6.0 billion to \$6.3 billion for 2007. Investment revenue for first quarter of 2006 includes \$3.8 million of cash flows from previously impaired investments and income from limited partnership interests.

Investment commissions expense increased six percent in the first quarter of 2007 compared to the same period in 2006 as rising short-term rates resulted in higher commissions paid to financial institution customers, partially offset by the impact of payments from our swap counterparties. The Company had \$2.1 billion of outstanding swaps with an average fixed pay rate of 4.2 percent at March 31, 2007 compared to \$2.6 billion with an average fixed pay rate of 4.3 percent at December 31, 2006. Approximately \$475 million of swaps matured in the first quarter of 2007 with an average fixed pay rate of 5.0 percent. Additional swaps of \$375 million, \$300 million and \$50 million with an average fixed pay rate of 3.7 percent, 3.9 percent and 5.6 percent will mature in the second, third and fourth quarters of 2007, respectively. We expect replacement swaps, if any, will be at higher average rates than maturing swaps.

Net investment revenue decreased seven percent in the first quarter of 2007 compared to the prior year, with the net investment margin decreasing 10 basis points to 2.21 percent, as compared to 2.31 percent for the first quarter of 2006. This was due to lower cash recoveries from previously impaired securities and lower average investable balances, partially offset by higher yields and the impact of swaps.

**Table 4 Summary of Gains, Losses and Impairments**

<b>Three Months Ended March 31, (Amounts in Thousands)</b>	<b>2007</b>	<b>2006</b>	<b>2007 vs. 2006</b>
Gross realized gains	\$ 3,793	\$ 1,637	\$2,156
Gross realized losses	(1,951)	(1,265)	(686)
Other-than-temporary impairments	(978)	(792)	(186)
Net securities gains (losses)	\$ 864	\$ (420)	\$1,284

The Company had a net securities gain of \$0.9 million in the first quarter of 2007 compared to a net securities loss of \$0.4 million in the first quarter of 2006, primarily due to higher realized gains in the first quarter of 2007. Impairments in the first quarter of 2007 related to investments backed by home equity loans while impairments in the first quarter of 2006 related primarily to investments backed by automobile and aircraft collateral.

**Expenses**

*Compensation and benefits* Compensation and benefits includes salaries and benefits, management incentive programs and other employee related costs. Compensation and benefits increased 23 percent in the first quarter of 2007 compared to the same period in 2006 due to higher headcount supporting the growth of the money transfer business. In the first quarter of 2007, the number of employees increased 22 percent over the first quarter of 2006, as we increased our support functions, particularly customer service, and staffed our retail locations in Western Europe and added headcount from the acquisition of Money Express. We expect compensation and benefits to increase in 2007 compared to 2006 due to additional headcount to support the growth of the money transfer business and annual merit increases.

*Transaction and operations support* Transaction and operations support expenses include marketing costs, professional fees and other outside service costs, telecommunications and forms expense related to our products. Transaction and operations support costs increased 23 percent in the first quarter of 2007 compared to the same period in 2006, primarily due to increased professional service costs and marketing expenditures. Professional fees increased 38 percent from the first quarter of 2006 to support enhancements to our technology systems and compliance activities. Marketing expenditures increased 27 percent from the first quarter of 2006 primarily due to a 24 percent

increase in agent locations.

We continue to see a trend among state and federal regulators toward enhanced scrutiny of anti-money laundering compliance. As we continue to add staff resources and enhancements to our technology systems to address this trend, our transaction expenses will likely increase. In addition, we anticipate that our tran